

CITY OF DUVALL
King County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Findings

1. Expenditures Must Be Limited To Appropriations

Our examination of the City of Duvall's 1993 budget operations revealed that expenditures exceeded budgetary appropriations in the following funds:

<u>Fund No.</u>	<u>Fund</u>	<u>Budget</u>	<u>Actual</u>	<u>Overrun</u>
001	General Fund	\$1,228,511	\$1,273,442	\$44,931
002	Contingency Fund	0	33,000	33,000
102	Arterial Street Fund	12,000	24,175	12,175
403	Garbage/Solid Waste Fund	248,214	332,229	84,015
203	ULID Fund	16,600	71,495	54,895
410	1991 Bond Redempt. Fund	372,790	373,299	509

Cities are prohibited from incurring expenditures in excess of budgeted appropriations by RCW 35A.33.120, which states in part:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing year. Unless otherwise ordered by a court of competent jurisdiction . . . the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount appropriated for each fund in the budget for the current fiscal year

In addition, RCW 35A.33.125 states in part:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund

The cause of these budgetary overruns in 1993, as in 1992, appears to be a lack of diligence by city management and city officials in monitoring fund expenditures to ensure there were sufficient appropriations to cover them. These deficiencies have resulted in the city council's statutory budgetary controls being rendered ineffective.

We again recommend that city officials institute procedures to more adequately monitor expenditures to ensure that budgetary appropriations are not exceeded in any fund.

2. Interfund Loans And Other Transfers Between Funds Should Be Authorized By Ordinance

Our audit disclosed two interfund loans made during 1993 which were not authorized by ordinance by the city council.

<u>Loan</u>	<u>From</u>	<u>To</u>	<u>Amount</u>
1	Sewer Capital Improve. Fund	Water Fund	\$35,000
2	Sewer Capital Improve. Fund	Garbage/Solid Waste Fund	46,000

In addition, some \$661,881 in transfers of cash or investments from ending fund balances (residual equity transfers) were also made without council authorization by ordinance.

The *Budgeting, Accounting and Reporting System* (BARS) manual, Category 2, Volume I, Part 3, Chapter 4, page 1, states in part:

. . . minimum acceptable procedures for making and accounting for interfund loans . . . :

1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest

RCW 43.09.210 states in part:

. . . Separate accounts shall be kept for each department, public improvement, undertaking . . . under the jurisdiction of every taxing body.

All service rendered by . . . one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund for the support of another.

City officials were apparently unaware of the statutory requirements enumerated above.

The transfer of cash or investments from one fund to another without an authorizing ordinance enables one fund to benefit from another.

We recommend that the city council make clear what its intentions are by requiring that the transfer of resources between city funds be made only subsequent to the passage of an appropriate ordinance.

3. The City Should Maintain Positive Cash Balances In All Funds

Our audit disclosed a deficit (negative) cash balance of \$26,681 in the Garbage/Solid Waste Fund at year end.

Deficit cash positions are in violation of RCW 43.09.210, which states in part:

. . . All service rendered by . . . one department, public improvement, undertaking, institution, or public service industry to another, shall be paid for at its true and full value . . . and no department . . . shall benefit in any financial manner whatever by an appropriation or fund for the support of another.

Whenever one fund runs a negative cash balance, another fund must cover its expenditures, this has the effect of letting the deficit fund spend the resources of the solvent fund.

The above situation occurred primarily because costs reported in the Garbage/Solid Waste Fund this year were not adequately monitored by city management.

We again recommend that the city comply with state law and take appropriate steps to ensure that funds do not run deficit cash balances.